

STATEMENT OF PURPOSE

RS21282

Over the last several years, TEPI and the State Tax Commission have been working on updating and clarifying the statutes regarding pass through entities. This bill is a further step in that process. Specifically, this bill concerns the scenario where there is an Idaho pass through entity (perhaps a trust, or LLC, or estate) that has one or more non-resident owners or beneficiaries who receive income from the pass through entity.

The bill clarifies the two options to the pass through entity:

(1) The pass through entity may file a composite return for non-residents and pay the tax due, reporting with that return and on the K-1 to the non-resident the income allocated to that non-resident and the tax allocated to that non-resident. The non-resident then has the option of filing an Idaho non-resident return, reporting the allocated income (and any other Idaho income), and claiming the tax paid as a credit.

(2) The entity can do backup withholding under §63-3036B.

This bill should lower the number of tax returns processed by the State Tax Commission because of the use of composite returns and also will make it easier for the State Tax Commission to track non-resident income and taxes paid in a composite return and match the income and taxes to any non-resident return filed thereafter.

The question of determination of residency will be handled by rule-making and will probably be done through modification of an existing form.

FISCAL NOTE

This bill will have no fiscal impact. Since composite returns are at the corporate rate, there may be increased revenues to the general fund and increased use of composite returns should lower processing and compliance costs.

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